

BANCO DE **ESPAÑA**
Eurosistema

ECONOMIC BULLETIN 1/2018
ANALYTICAL ARTICLES

The January 2018 Bank Lending Survey in Spain

Alvaro Menéndez Pujadas



23 January 2018

The results of the Bank Lending Survey show that during 2017 Q4 credit standards for new loans in Spain eased slightly in loans to households and were stable in loans to enterprises. The pattern was similar in the euro area, except in the case of consumer credit and other lending to households, where credit standards barely changed. Households' demand for credit rose moderately in both areas, while demand from enterprises grew in the euro area but remained unchanged in Spain. As regards funding received by banks, both Spanish and euro area banks generally perceived some improvement in access to retail markets and to almost all wholesale markets. Lastly, in both areas, regulatory and supervisory measures seem to have prompted some increase in capital levels and risk-weighted assets. Spanish banks assessed these measures as having no significant impact on their funding conditions or on credit standards or margins on loans. In the case of the euro area, the measures appear to have brought a slight easing of bank funding conditions, while the effect on credit standards and margins on loans has generally been small.

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Main results

This article presents the results of the January 2018 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in 2017 Q4 and on the outlook for 2018 Q1. This edition includes a number of ad hoc questions on terms of access to wholesale and retail funding markets and on the impact of regulatory and supervisory measures.¹ This section discusses the main results from the replies by the ten Spanish banks participating in the survey, comparing them with the results for the euro area as a whole, while the following sections review the results for Spain in more detail.²

The survey results show that credit standards in Spain eased somewhat in 2017 Q4 in lending to households, both in loans for house purchase and consumer credit and other lending, while credit standards in lending to enterprises remained unchanged (see Charts 1.1.1, 1.2.1 and 1.3.1). The pattern in the euro area was similar, except in the case of loans to households for consumer credit and other lending, where credit standards barely changed. In both areas the general conditions applied to lending eased in most segments, with the exception of lending to enterprises in Spain and of loans to households for consumer credit and other lending in the euro area, where they remained unchanged. For the current quarter, Spanish banks did not envisage changes in credit standards in any segment, while euro area banks expected a slight easing in standards across the board.

According to the replies received, it seems that in 2017 Q4 demand for loans grew moderately in both household lending segments, both in Spain and the euro area overall, while in the case of lending to enterprises, the number of loan applications grew in the euro area but remained stable in Spain (see Charts 1.1.2, 1.2.2 and 1.3.2). The banks surveyed expected that the demand for funds would increase across the board in both areas in 2018 Q1.

In the latest period observed, there was no dispersion between Spanish banks' replies on credit standards in lending to enterprises, and little dispersion in the case of lending to households. In the case of demand, dispersion was moderate in all segments, but exceeded that for supply.

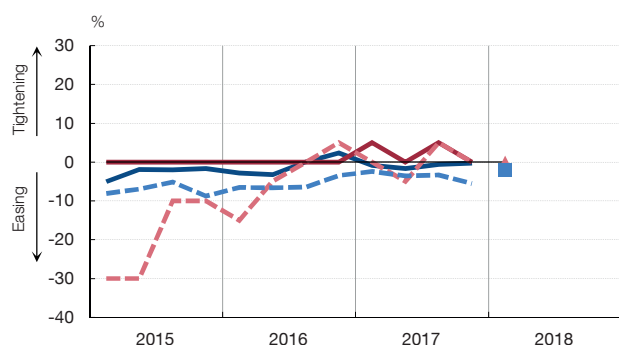
As regards the ad hoc questions included in the survey, in response to the first question both Spanish and euro area banks reported that they perceived a slight improvement in conditions of access to retail markets and to almost all wholesale markets in 2017 Q4 (see Chart A.1). As to the questions on the impact of regulatory and supervisory measures, banks in both areas responded that these measures led to an increase in their capital levels and risk-weighted assets in the second half of 2017 (this effect being stronger in Spain) (see Chart A.2). In Spain, these measures do not seem to have had a significant

1 The Banco de España has published these results on its website (<http://www.bde.es/webbde/es/estadis/infoest/epb.html>), in tandem with the publication of this article and dissemination by the ECB of the results for the euro area. Also available at this address are the time series of the aggregate indicators by bank, relating to the regular questionnaire, along with additional information about the nature of the BLS. A more detailed analysis of the results for the euro area as a whole can be found in the ECB's regular notes on its website (<http://www.ecb.int/stats/money/lend/html/index.en.html>).

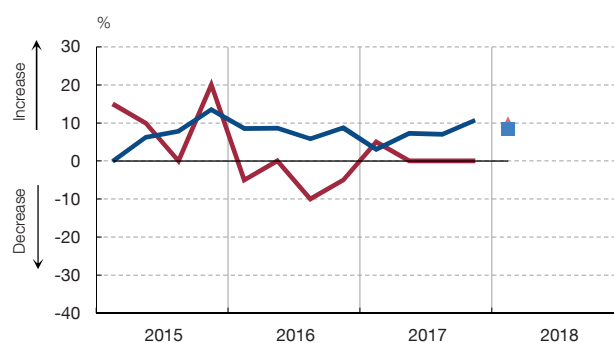
2 The analysis of results in this article is based on "diffusion indices", which are calculated by applying weights based on the improvement/worsening or easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages which do not take into account this weighting.

1 LENDING TO NON-FINANCIAL CORPORATIONS

1.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS (a)

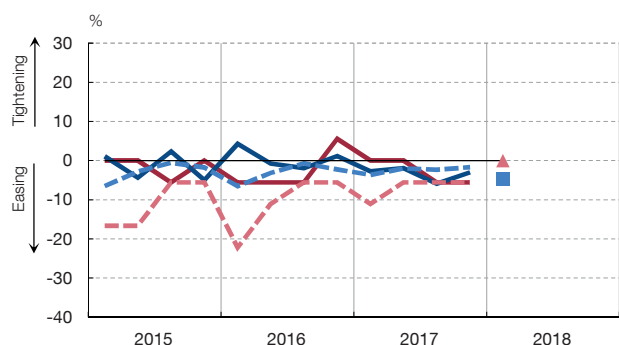


1.2 CHANGE IN DEMAND (b)

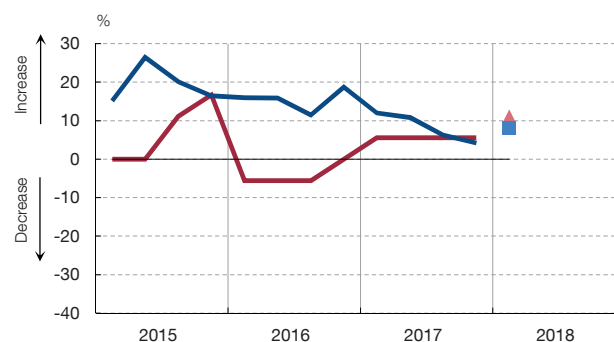


2 LOANS FOR HOUSE PURCHASE

2.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS (a)

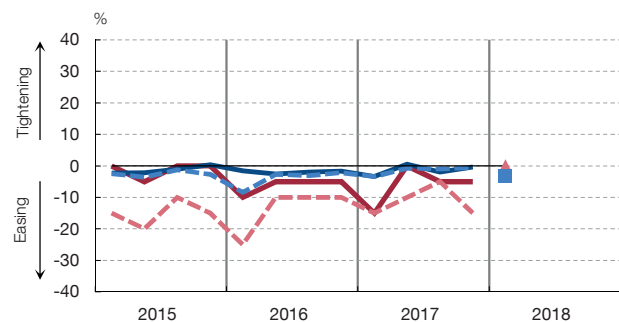


2.2 CHANGE IN DEMAND (b)

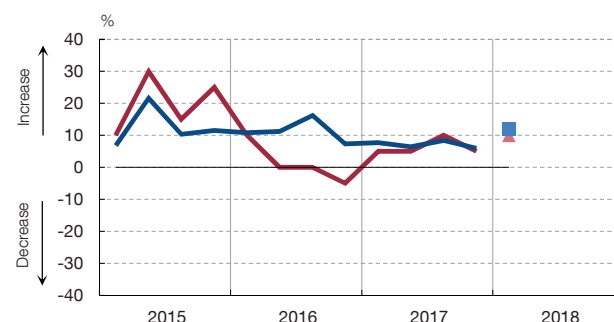


3 CONSUMER CREDIT AND OTHER LENDING

3.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS (a)



3.2 CHANGE IN DEMAND (b)



— CREDIT STANDARDS. SPAIN
 ▲ FORECAST CREDIT STANDARDS. SPAIN
 - - - CREDIT TERMS AND CONDITIONS. SPAIN
 — CREDIT STANDARDS. EURO AREA
 ■ FORECAST CREDIT STANDARDS. EURO AREA
 - - - CREDIT TERMS AND CONDITIONS. EURO AREA

— SPAIN
 — EURO AREA
 ▲ FORECAST. SPAIN
 ■ FORECAST. EURO AREA

SOURCES: ECB and Banco de España.

- a Indicator = percentage of banks that have tightened their credit standards or terms and conditions considerably $\times 1$ + percentage of banks that have tightened their credit standards or terms and conditions somewhat $\times 1/2$ – percentage of banks that have eased their credit standards or terms and conditions somewhat $\times 1/2$ – percentage of banks that have eased their credit standards or terms and conditions considerably $\times 1$.
- b Indicator = percentage of banks reporting a considerable increase $\times 1$ + percentage of banks reporting some increase $\times 1/2$ – percentage of banks reporting some decrease $\times 1/2$ – percentage of banks reporting a considerable decrease $\times 1$.

influence on credit standards or margins on loans in any of the segments and nor do they seem to have affected bank funding conditions. In the euro area these measures seem to have encouraged a slight easing of bank funding conditions, a moderate tightening of credit standards and an increase in margins on loans to households for consumer credit and other lending, along with a moderate reduction in margins on loans to enterprises, with a negligible effect in all other segments.

Supply and demand conditions

A more detailed analysis of Spanish banks' replies to the regular questionnaire reveals that credit standards in the segment of loans to non-financial corporations remained unchanged in 2017 Q4, both in lending to large firms and in that to SMEs. The breakdown by maturity shows a similar pattern over all maturities. In terms of the factors underlying this pattern, the improved outlook for economic activity in general and for the sectors in particular, and the lower perceived risks on the collateral required, appear to have given rise to some easing, but this effect was offset by higher costs relating to capital levels (see Chart 2.1.1).

The overall terms and conditions for new loans appear to have remained unchanged in lending to SMEs and large firms. Most of the factors analysed had no impact on the conditions applied. The more detailed information evidences mixed developments, namely a slight decrease in margins on average loans, primarily in the SME segment, and a small increase in margins on riskier loans (see Chart 2.1.2). Also observed was an increase in non-interest charges and collateral requirements, and a slight decrease in loan size, all other conditions remaining unchanged. Lastly, the proportion of rejected loan applications fell slightly between September and December.

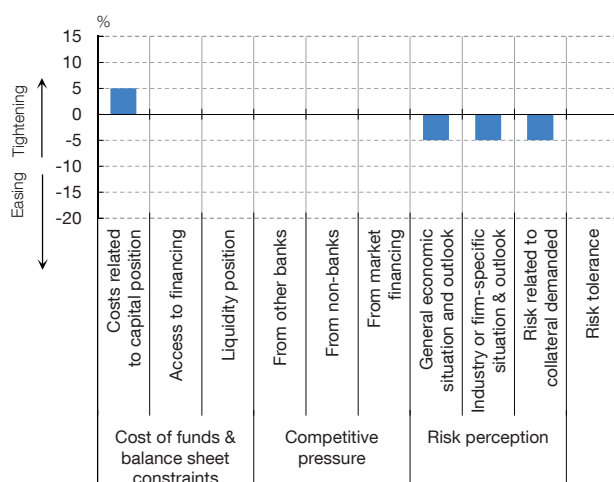
According to the replies received, it seems that overall demand for funds from enterprises – both SMEs and large firms – barely changed in 2017 Q4. The breakdown by maturity shows that applications for short-term loans were stable, while applications for long-term loans decreased moderately. This pattern of demand seems to be the outcome of opposing factors. On the one hand, increased borrowing to finance inventories and working capital, falling interest rates across the board, and, to a lesser extent, increased funding requirements for fixed capital investments and share issues or buy-backs, helped boost demand. On the other hand, greater recourse to borrowing from other banks, and, to a lesser extent, increased use of internal financing and a decline in corporate mergers, acquisitions and restructurings tended to dampen demand (see Chart 3.1).

According to the responding banks, credit standards for loans to households for house purchase eased somewhat in 2017 Q4. This change seems to have been driven by increased competitive pressure from other banks, the better outlook for the economy as a whole and the housing market in particular, and a perceived improvement in borrowers' creditworthiness (see Chart 2.2.1). The overall terms and conditions applied to these loans again eased further, mainly due to the lower cost of and greater availability of funds and to increased competitive pressure. A more detailed analysis reveals mixed developments in the various terms and conditions, since a decline in the margins applied to average loans and in non-interest rate charges was reported on the one hand, and, on the other, a decline in the LTV ratio, and an increase in the margins applied to riskier loans (see Chart 2.2.2). The percentage of rejected loan applications dropped again, albeit at a somewhat slower pace than in the previous quarter.

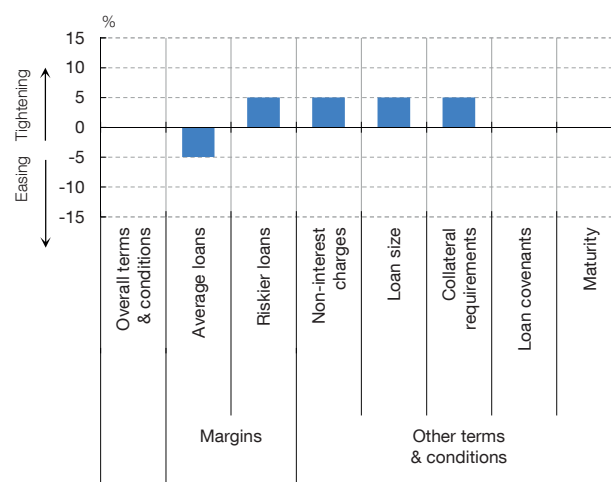
Demand for loans for house purchase increased slightly. According to the responding banks, the growth in loan applications was driven by the improved housing market outlook, and, to a lesser extent, by more buoyant consumer confidence, a lower general level of interest rates and a rise in debt restructurings, although these effects may have been partly

1 LOANS TO NON-FINANCIAL CORPORATIONS

1.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)

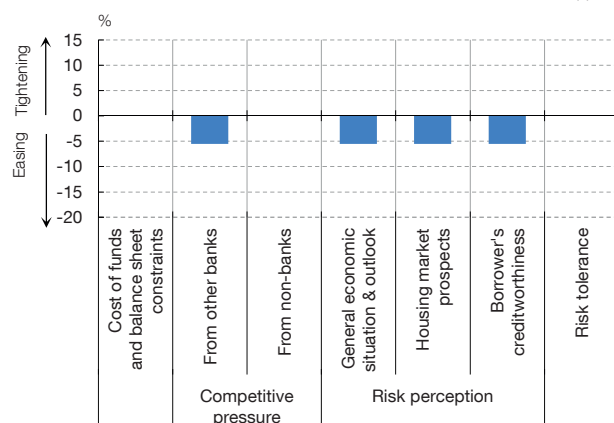


1.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

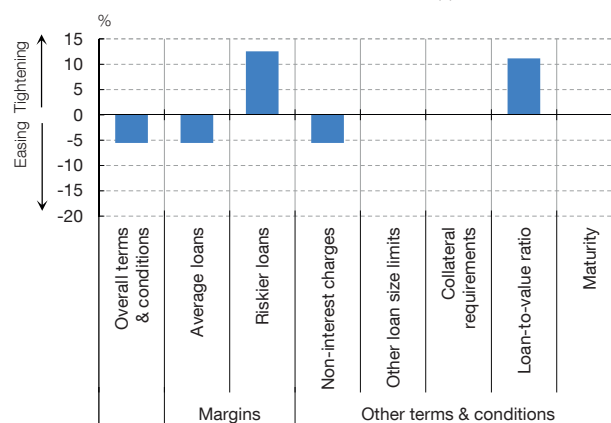


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)

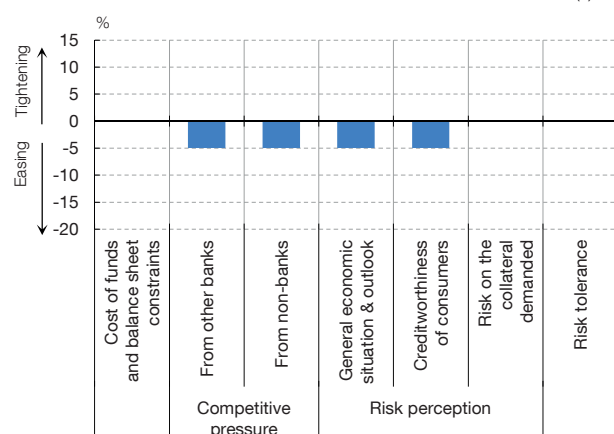


2.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

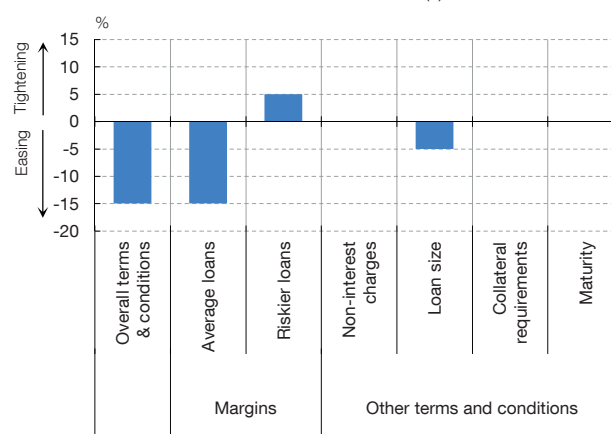


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

3.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)



3.2 CHANGES IN TERMS AND CONDITION ON LOANS (b)

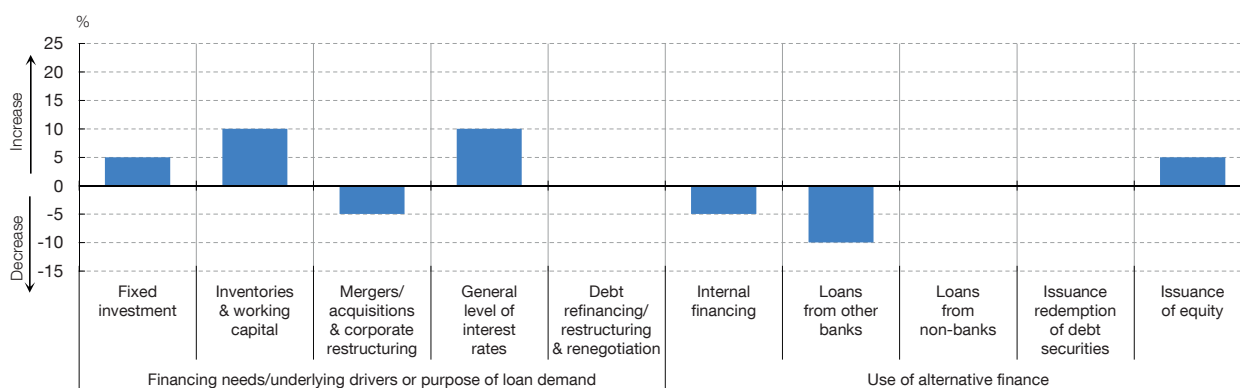


SOURCES: ECB and Banco de España.

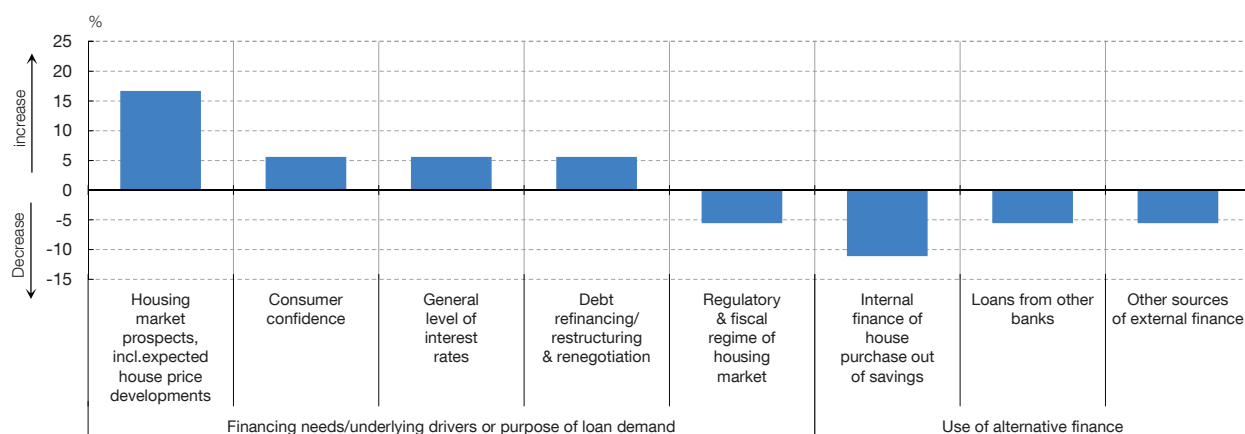
a Indicator = percentage of banks reporting that the factor has contributed considerably to the tightening of credit standards \times 1 + percentage of banks reporting that it has contributed somewhat to the tightening of credit standards \times 1/2 – percentage of banks reporting that it has contributed somewhat to the easing of credit standards \times 1/2 – percentage of banks reporting that it has contributed considerably to the easing of credit standards.

b Indicator = percentage of banks that have considerably tightened their terms and conditions \times 1 + percentage of banks that have somewhat tightened their terms and conditions \times 1/2 – percentage of banks that have somewhat eased their terms and conditions \times 1/2 – percentage of banks that have considerably eased their terms and conditions.

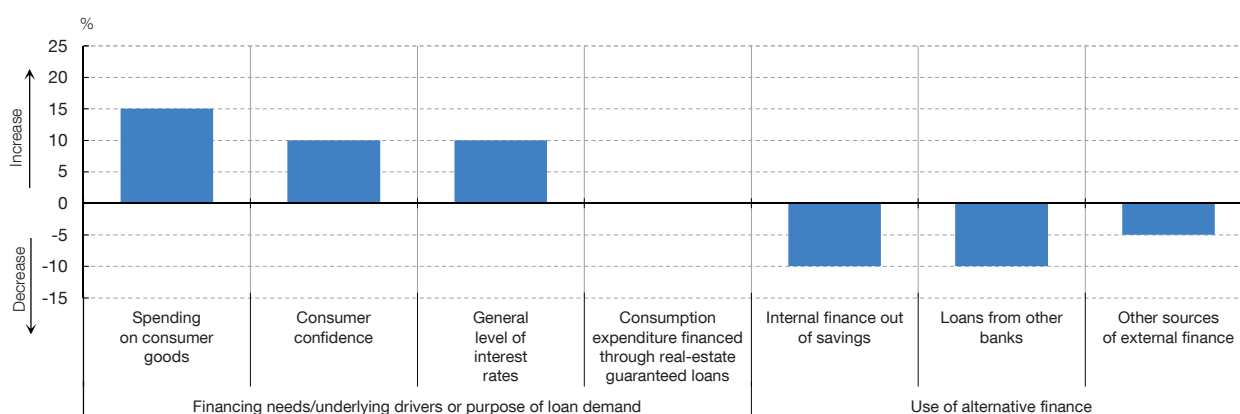
1 LOANS TO NON-FINANCIAL CORPORATIONS (a)



2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE (a)



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS (a)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the factor has contributed considerably to increasing demand \times 1 + percentage of banks reporting that it has contributed somewhat to increasing demand \times 1/2 – percentage of banks reporting that it has contributed somewhat to reducing demand \times 1/2 – percentage of banks reporting that it has contributed considerably to reducing demand.

offset by increased internal financing and, to a lesser extent, by regulatory and fiscal changes in the market and an increase in loans from other banks and other sources of external financing (see Chart 3.2).

Credit standards on consumer credit and other lending eased again somewhat in 2017 Q4, driven by increased competitive pressure and an improvement in the general economic outlook and in the perception of borrowers' creditworthiness (see Chart 2.3.1). Furthermore, the overall conditions for this type of lending also again eased slightly (more so than in the previous quarter) as a result of higher competition and, to a lesser extent, a decrease in perceived risk. In particular, the margins on average loans narrowed and loan size increased (see Chart 2.3.2). By contrast, the margins on riskier loans rose slightly. The percentage of rejected loan applications fell again in 2017 Q4, and at a somewhat faster pace than in the previous quarter.

Applications for consumer credit and other lending rose in 2017 Q4. According to the replies received, higher spending on consumer durables and, to a lesser extent, increased consumer confidence and lower interest rates were the main factors contributing to this growth in applications, while rises in loans from other banks, in internal financing out of savings and, to a lesser extent, in recourse to other external sources of financing have had the opposite effect (see Chart 3.3).

Ad hoc questions

In their replies to the ad hoc question on access to retail and wholesale funding, Spanish banks reported that in 2017 Q4 they perceived a slight improvement in the conditions of access to retail markets and to most wholesale markets, except the money market and the short-term debt securities market where they detected a certain degree of stability (see Chart A.1).

In reply to the questions on the effect of regulatory and supervisory actions (in force or in the process of implementation), Spanish banks declared that in 2017 H2 these actions led to some increase in both their total assets and their liquid and risk-weighted assets, particularly average loans, while they had no effect on riskier loans (see Chart A.2). They also noted that these actions had a positive impact on their capital levels, both through share issues and, to a greater extent, through retained earnings. According to the responding banks, these actions had no significant impact on their credit standards or margins in any segment, or on their own funding conditions.

Outlook

As regards the current quarter, the responding banks did not expect any change to their credit standards for loans to enterprises or households (see Chart 1). On the demand side, if their forecasts are met, applications for all types of loans will increase.

In the retail and wholesale funding markets, banks' expectations for 2018 Q1 were for a slight improvement in access to the securitisation markets, essentially for enterprises, in the capacity to transfer risk off the balance sheet and in the issuance of medium and long-term securities, and for no change in all other markets (see Chart A.1).

As a consequence of the regulatory and supervisory measures, the responding banks expected for 2018 H1 a slight increase in the total balance sheet and in liquid and risk-weighted assets, as well as an increase in capital, mainly through growth in retained earnings (see Chart A.2). They did not expect these measures to give rise to changes to their credit standards, to the margins on loans in any segment, or to their funding conditions.

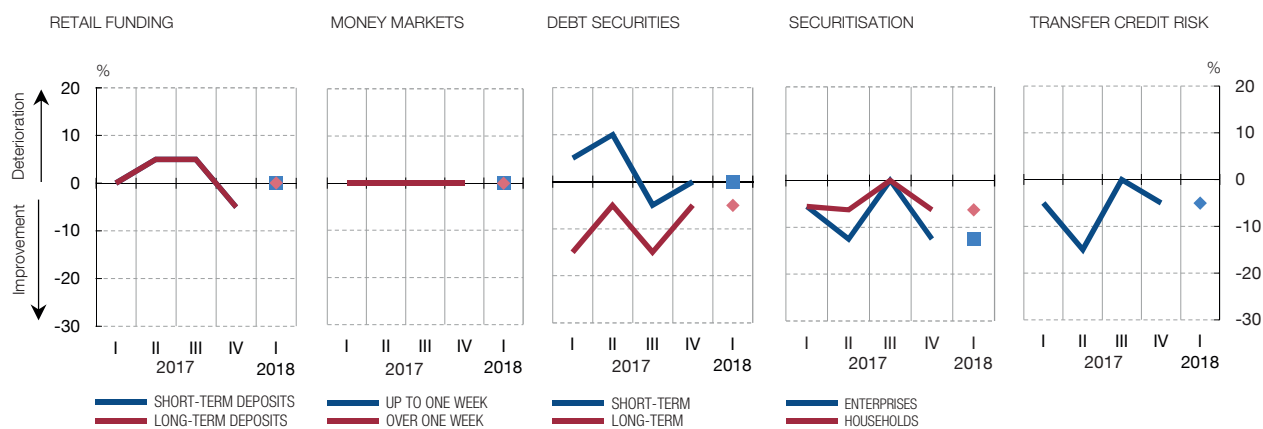
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ANNEX WITH CHARTS OF MAIN RESULTS FOR THE AD HOC QUESTIONS

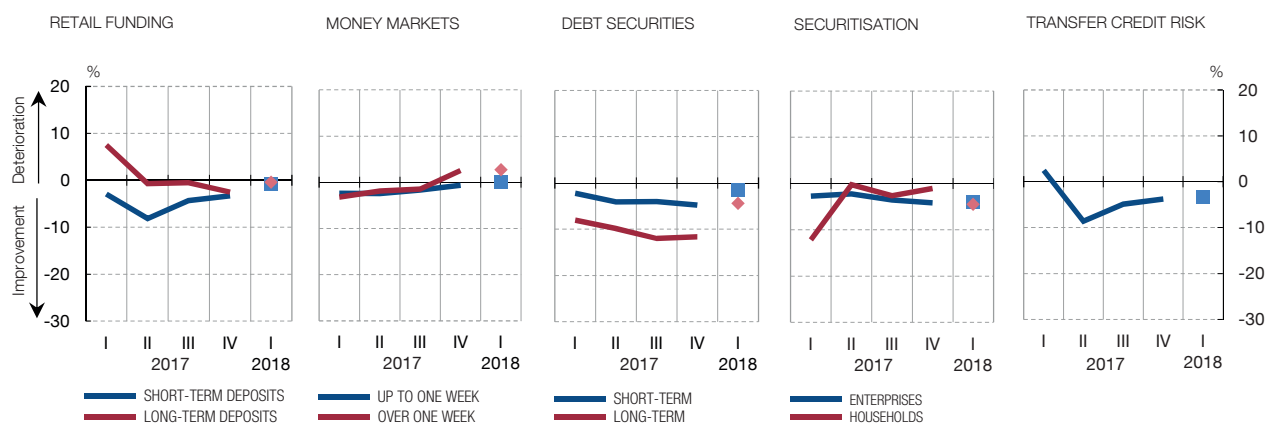
MARKET ACCESS FOR RETAIL AND WHOLESALE FUNDING (a) (b)

CHART A.1

1 SPAIN



2 EURO AREA

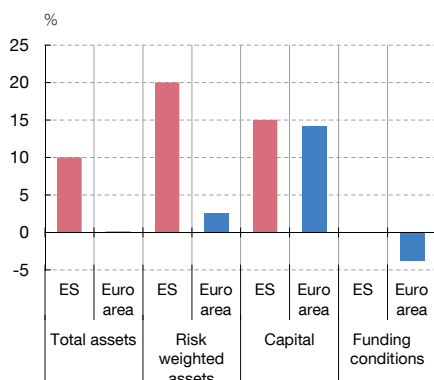


SOURCES: ECB and Banco de España.

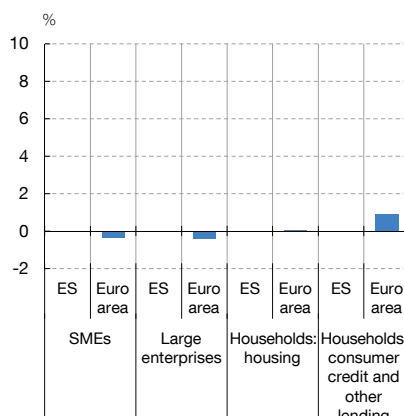
- a Indicator = percentage of banks that have perceived a considerable deterioration in their market access \times 1 + percentage of banks that have perceived some deterioration \times 1/2 – percentage of banks that have perceived some easing \times 1/2 – percentage of banks that have perceived a considerable easing \times 1.
- b ♦, ■ Forecast.

1 PAST SIX MONTHS

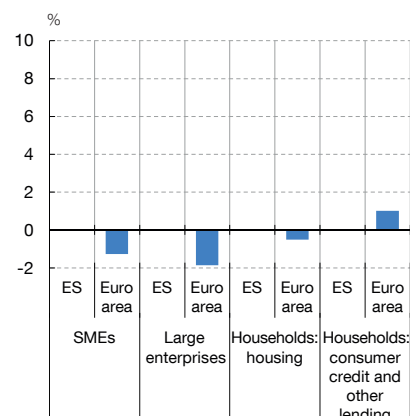
ASSETS, CAPITAL AND FINANCING CONDITIONS (a)



CREDIT STANDARDS (a)

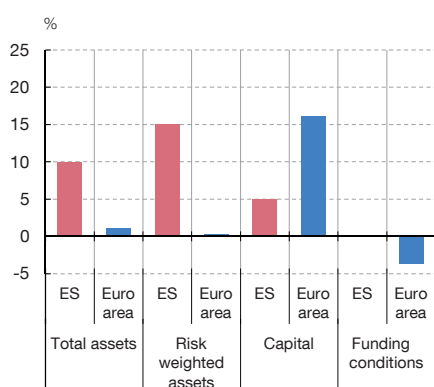


CREDIT MARGINS (a)

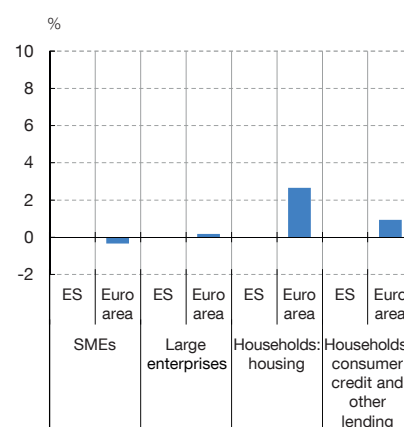


2 NEXT SIX MONTHS

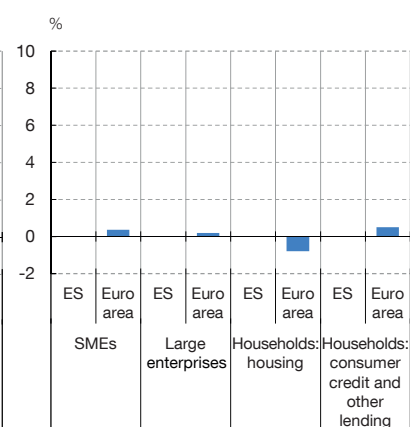
ASSETS, CAPITAL AND FINANCING CONDITIONS (a)



CREDIT STANDARDS (a)



CREDIT MARGINS (a)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting an increase or tightening (depending on the item analysed), minus the percentage of those reporting a decrease or easing (depending on the item analysed), giving a weight of 1 to considerable changes and of 1/2 to minor changes.